Before The Public Service Commission of South Carolina

Docket No. 2007-4-G

Annual Review of Purchased Gas Adjustment and Gas Purchasing Policies of Piedmont Natural Gas Company, Inc.

Direct Testimony and Exhibits
Of
Robert L. Thornton

SERVICE

On Behalf Of Piedmont Natural Gas Company, Inc.

| 1 | Q. | Please state your name and business address. |
|----|----|---|
| 2 | A. | My name is Robert L. Thornton. My business address is 4720 Piedmont Row |
| 3 | | Drive, Charlotte, North Carolina. |
| 4 | Q. | What is your position and what are your responsibilities with Piedmont |
| 5 | | Natural Gas Company ("Piedmont")? |
| 6 | A. | I am employed as Manager of Gas Accounting. |
| 7 | Q. | Please briefly describe your education and experience. |
| 8 | A. | I received a B.S. degree from The College of Charleston in 1984. In 1985, I |
| 9 | | was employed by Duke Power Company as a staff accountant. In 1990 I was |
| 10 | | employed by Ingersoll-Dresser Pump Company as Controller. In 1994, I was |
| 11 | | employed by Public Service Company of North Carolina, Inc. ("PSNC"), as a |
| 12 | | Senior Financial Accountant and was promoted to Director – Investor Relations |
| 13 | | and Financial Projects in 1998. After PSNC was acquired by SCANA |
| 14 | | Corporation 1 was employed by Cox Technologies in 2000 as Controller and |
| 15 | | Assistant Treasurer. In 2004, I was employed by HSBC Mortgage Corp. as |
| 16 | | Manager of Regulatory and Investor Reporting. I was employed by Piedmont |
| 17 | | Natural Gas Company, Inc. ("Piedmont") in 2007 as Manager of Gas |
| 18 | | Accounting. |
| 19 | Q. | Please describe your responsibilities as Manager of Gas Accounting. |
| 20 | A. | My responsibilities include: recording the cost of gas on Piedmont's books, |
| 21 | | maintaining a proper match of revenues and cost of gas in Piedmont's income |
| 22 | | statements, recording Piedmont's margin in accordance with regulatory |
| 23 | | requirements in each of the three state jurisdictions in which Piedmont |

| | operates, verifying volumes and prices on all invoices relating to the purchase |
|-----------------|--|
| | and transportation of natural gas, and recording gas inventory accounts and |
| | deferred accounts. I am also responsible for the middle office functions related |
| | to the experimental hedging program implemented in South Carolina pursuant |
| | to Commission Order No. 2002-223 dated March 26, 2002. |
| Q. | Have you previously testified before this Commission or any other |
| : | regulatory authority? |
| A. | I have not previously testified before this Commission, however, I have |
| | testified before the North Carolina Utilities Commission in Piedmont's most |
| | recent annual review of gas costs in Docket No. G-9, Sub 542. |
| | |
| Q. | How long have you been employed by Piedmont as Manager of Gas |
| Q. | How long have you been employed by Piedmont as Manager of Gas Accounting? |
| Q. A. | |
| | Accounting? |
| A. | Accounting? Approximately seven months. |
| A. Q. | Accounting? Approximately seven months. Why were you hired by Piedmont? |
| A. Q. | Accounting? Approximately seven months. Why were you hired by Piedmont? At the time I was hired, Piedmont was experiencing some difficulties in its gas |
| A. Q. | Accounting? Approximately seven months. Why were you hired by Piedmont? At the time I was hired, Piedmont was experiencing some difficulties in its gas cost accounting functions and I was hired to help address and correct these |
| A. Q. A. | Accounting? Approximately seven months. Why were you hired by Piedmont? At the time I was hired, Piedmont was experiencing some difficulties in its gas cost accounting functions and I was hired to help address and correct these difficulties. |
| A. Q. A. | Accounting? Approximately seven months. Why were you hired by Piedmont? At the time I was hired, Piedmont was experiencing some difficulties in its gas cost accounting functions and I was hired to help address and correct these difficulties. Has the Company made progress in improving its gas cost accounting |
| | |

1 weaknesses in our gas cost accounting practices and procedures in the last 2 seven months. These efforts are ongoing. 3 Q. What is the purpose of your testimony in this proceeding? 4 A. The purpose of my testimony in this proceeding is to report to the Commission 5 Piedmont's end-of-period balances and accounting in its deferred accounts in 6 order to permit the Commission to determine that Piedmont's true-up 7 procedures for the review period have resulted in a properly stated cost of gas 8 and that Piedmont's gas costs are properly recorded in compliance with 9 Piedmont's Gas Cost Recovery Mechanism and Hedging Plan. 10 Q. Has the Office of Regulatory Staff reviewed Piedmont's accounting for 11 its cost of gas for the review period in this proceeding? 12 A. Yes. The Commission has previously ordered Piedmont to maintain an account 13 reflecting its gas costs each month, the amount of gas costs recovered each 14 month, and amounts deferred each month. The audit staff of the Office of 15 Regulatory Staff has conducted a detailed audit and review of the activity in 16 that account, as well as the detailed data supporting the accounting entries to 17 that account. 18 Q. Does the Company also maintain a hedging deferred account? 19 A. Yes. Effective April 1, 2002, Piedmont implemented an experimental natural 20 gas hedging program pursuant to Commission Order No. 2002-223. Pursuant to

this program, Piedmont maintains a Hedging Deferred Account in which it

21

records the results of its hedging activities undertaken in accordance with its 1 2 hedging plan. The audit staff of the Office of Regulatory Staff has also conducted a detailed review of the balance in this account and detailed 3 4 accounting data supporting that balance and review period entries in that 5 account. 6 Q. Have you prepared any exhibits with your testimony? 7 A. Yes. I have attached as exhibits the analysis of the South Carolina Gas Cost Deferred Account (Exhibit __ (RLT-1)) and the Hedging Deferred Account 8 9 (Exhibit __ (RLT-2)) for the review period. 10 Q. Does this conclude your testimony? 11 A. Yes.

EXHIBIT_(RLT-1)

Piedmont Natural Gas Company, Inc. - South Carolina Gas Cost Deferred Account Activity Annual Prudence Review - Docket No. 2007 4-G 12 Months Ended March 31, 2007

| Recording Mortin ==> | 90-VEN | 30-ung | 90_11 | Aug-06 | 90-deS | \$0-90 <u>1</u> | # 90-AON ## | Decob | Jan-07 | F40-07 | Marto? | * . Apr-07 | |
|---|--|--|---------------------------------|---|-----------------|-----------------|---|-----------------------|----------------|----------------|----------------|----------------|----------------|
| Gas Flow Morth emp | | May-08 | 90-unr | | Aug-08 | go-das | 90-PO | Nov-08 | Dec-06 | Jan-07 | Feb.07 | Nar-07 | Totals |
| | ¥. | (15,133,277.11) (13,925,252.87) | (14,443,295.38) | (14,319,407.06) | (14,136,305.86) | (13,828,413.36) | (13,293,258.48) | (10,115,604.57) | (7,011,822.45) | (6,273,346.54) | (5,680,811.15) | (2,853,384.62) | |
| Billed vs. Filed (Commodity) TU | 563,325.73 | 78,379.43 | 726,757.10 | 960,223.08 | 758,813.93 | 1,506,333.44 | 4,120,489.54 | 2,320,710.48 | 896,627.16 | 1,518,068.20 | 349,286.09 | (464,510.37) | 13,334,503.82 |
| Demand True-Up | (230,931.00) | (926,943.00) | (983,460.00) | (1,074,134.00) | (1,077,236.00) | (1,025,284.00) | (995,974.00) | (140,017.00) | 376,778.00 | 766,274.00 | 1,646,388.00 | 367,211.00 | (3,297,328.00) |
| Negotiated Losses | (92,725.99) | (58,742.48) | (105,451.73) | (130,488.47) | (63,118.86) | (67,406.92) | (80,154.60) | (199,382.10) | (173,694.55) | (147,907.19) | (161,649.95) | (78,411.26) | (1,359,134.10) |
| Sec Mkt Sharing | 789,722.04 | 476,381.00 | 563,799.00 | 514,676.00 | 637,537.00 | 194,268.00 | 316,438.00 | 303,176.00 | 277,874.00 | 530,665.00 | 792,876.00 | 322,838.00 | 5,720,250.04 |
| Benchmark Proration | , | | , | (11,241.00) | , | - | 1 | • | - | 233,277.00 | 1 | ' | 222,036.00 |
| WNA (includes adjustment) | 9,177.75 | 553.26 | 546.68 | 68.25 | (38.47) | (61.51) | (4.80) | 392,701.06 | (655,293.41) | (2,262,145.01) | 243,522.14 | (368,089.60) | (2,639,063.66) |
| Unaccounted for | | - | | - | • | - | • | 514,692.00 | , | • | • | • | 514,692.00 |
| SC - Uncollectibles | , | | | | | - | , | (36,160.00) | (13,662.55) | (14,772.60) | (18,176.73) | (25,570.17) | (108,342.05) |
| Supplier Refunds | , | | 10,586.09 | 267.09 | 126,888.64 | • | 8,080.00 | 6,961.40 | 68,482.99 | 3,840.88 | • | 16,016.70 | 241,123.79 |
| Other Adjustments | 259,258.76 | | , | | | , | (00'066'66) | (9,090.00) | • | 1 | • | • | 150,178.76 |
| | 3 | | | | | | (2) | (3) | | | | | |
| Ending Balance Before Interest | (13,835,449.82) | | (14,355,624.66) (14,230,518.24) | (14,060,036.11) | (13,753,459.62) | (13,220,564.35) | (10,024,374.34) | (6,962,012.74) | (6,234,710.81) | (5,646,046.26) | (2,828,565.61) | (3,083,900.32) | |
| Interest | (89,803.05) | (87,670.72) | (88,888.82) | (76,269.75) | (74,953.74) | (72,694.13) | (91,230,24) | (49,809.72) | (38,635.72) | (34,764.90) | (24,819.02) | (17,317.08) | (746,856.89) |
| Ending Balance | (13,925,252.87) | (14,443,295.38) | (14,319,407.06) | (14,136,305.86) | (13,828,413.36) | (13,293,258.48) | (10,115,604.57) | (7,011,822.45) | (6,273,346.54) | (5,680,811.15) | (2,853,384.62) | (3,101,217.40) | |
| Monthly Interest @Lower of Authorized or Actual (APR-OCT) & 7.00% (NOV-DEC) | 7.44% | 6 7.44% | 7.44% | 6.45% | 6.45% | 6.45% | 9:39% | 7.00% | 7.00% | 7.00% | 7.00% | 7.00% | |
| Ξ | (1) Adjustment for 12/05 & 01/06 Benchmark & OSS Nanytisted Loss adi 04/05 | '05 & 01/06 Benchr di 04/05 | nark & OSS | 19,929.00 (18,913.24) | | (2) | (2) Reverse potential for return of \$\$ from NGD | or retum of \$\$ from | NGD | (99,990.00) | | | |
| | Adjustment for 01/06 of Proration Adjustment fo | Adjustment for 01/06 of Proration Adjustment for 01/06 of Proration Adjustment for Prior Months SC Prudence Order Interest adjustment - 2006-527 | s ent - 2006-527 | (7,203.00) (27,405.00) 292,851.00 259,258.76 | | (3) | (3) NGD Adjustment | | | (9,090.00) | | | |

EXHIBIT_(RLT-2)

Piedmont Natural Gas Company, Inc. - South Carolina Hedging Deferred Account Activity Annual Prudence Review - Docket No. 2007-4-G 12 Months Ended March 31, 2007

| | | | | | | | | - | | | | | | Monthly | | |
|------------------|---------------------------------------|---------------|-------------------------|-----------------------------|------------------|----------------|------------------------|--|----------|-------------------|----------------|----------------|--------------|--------------------|----------------|-------------|
| | i i i i i i i i i i i i i i i i i i i | Ortion | | Margin | Consultant Proce | Proceeds from | - | Interest from | Other | from | į | Balance before | 400 | Gain / | Ending | Annual |
| | Balance | Premium | Fees | E | Fees | positions | ees s | brokerage | Monthiy | Hedging | | interest | | (Loss) Transfer | Balance | return rate |
| | | | | (00 850 396) | (305 25) | 6 240 00 | (240 00) | 781.99 | (59.60) | | | 798,341.65 | 8,469.12 | - | 806,810.77 | 10.39% |
| Apr-06 | 12,792,51 | | | (303, 330.00) | (70 807 67 | (57 750 00) | Ιù | 451 14 | (59 60) | - | (1.693.784.01) | (1.940.913.67) | 9,755.62 | , | (1,931,158.05) | 10.39% |
| May-06 | \$ 806,810.77 | (156,220.00) | (3,280.00) | 1 | (205.05) | (44 640 00) | (1 080 00) | ſ | (59 60) | | 1 693 784 01 | (382 470 32) | (10.014.37) | , | (392,484.69) | 10.39% |
| Jun-06 | \$ (1,931,158.05) | (257,230.00) | - 1 | | (393.23) | (00.010,11) | -1 | L | 2000 | | | 07 077 000 | (831.63) | Ţ, | 199 948 07 | 10 39% |
| 3ul-06 | (392,484.69) | (347,400.00) | (3,140.00) | 941,877.00 | (395.25) | | • | 2,382.24 | (00.60) | | | 200,019,10 | (00.100) | | 100,000,000 | 40.2007 |
| A110-06 | \$ 199 948 07 | (270 150 00) | (270 150 00) (2 160 00) | (904,180.00) | (395.25) | (45,950.00) | (440.00) | 4,293.01 | (29.60) | | | (1,019,093.7) | (3,540.22) | | (1,022,039.99) | 0.23.70 |
| 200 | 6 /4 000 620 00) | | (12 080 00) | 15 | (395 25) | (1 118 440.00) | (1,380,00) | 1,463.27 | (29.60) | | | (6,506,755.57) | (32,596.01) | , | (6,539,351.58) | 10.39% |
| 8 8 | | | 200.00 | 2 200 001 2 230 110 00 | (395 25) | 195 910 00 | | 8 053 49 | (59.60) | (59.60) 68.400.00 | 295.76 | (4,439,117.18) | (47,528.90) | 1 | (4,486,646.08) | 10.39% |
| 9 5 5 5 | - | 1 | (3,300.00) | 2,230, 10.00 | (305.25) | 132 005 50 | (294 50) | 1 | (59 60) | | (295.76) | (2,118,687.06) | (28,596.87) | | (2,147,283.93) | 10.39% |
| Nov-06 | _ | | - 1 | (6,045.00) 2,369,766.00 | (393.63) | 106,000,00 | 100.00 | 1 | (60 60) | | | (5 568 218 27) | (33 401 69) | | (5 601 619 96) | 10.39% |
| Dec-06 | \$ (2,147,283.93) | (334,482.00) | | (2,480.00) $(2,493,231.00)$ | (385.25) | (06.612,286) | 92,213,30) (1,303,30) | | 100.65 | | | (9 740 644 95) | (40.402.05) | | (3 700 007 20) | 10 30% |
| Jan-07 | \$ (5 601 619 96) | (280, 100,00) | (4.526.00) | 2,187,584.00 | (385.25) | (53,550.15) | 53,550.15) (1,503.50) | 4,556.21 | (29.60) | | | (07,43,014.20) | (40,403,03) | • | (3, 190,067,5) | 20.00 |
| Eah 07 | + | | (620 00) | 357.347.66 | (395.25) | ' | | 5,736.34 | (29.60) | | | (3,546,488.15) | (31,761.30) | | (3,5/8,249.45) | 10.39% |
| 100.07 | - | | (790 50) | L | (395.25) | 155,750.00 | (775.00) | 64.41 | (29.60) | | | (3,515,079.05) | (30,708.20) | - | (3,545,787.25) | 10.39% |
| Mar-0/ | 4(3,370,243.43) | 5 | (46 561 50) | | (6 756 72) | (1 388 618 15) | (8,836,50) | 88 618 15) (8.836.50) 41.377.81 (715.20) | (715.20) | | , | | (241,243.50) | | | |
| | ACTIVITY TOTALS | | 140,001.00 | | 7-100.12 | 7 | | | 1 | | | | | | | |

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the attached *Direct Testimony and Exhibits of Robert L. Thornton on Behalf of Piedmont Natural Gas Company, Inc.* is being served this date via UPS Overnight upon:

Jeffrey M. Nelson
Office of Regulatory Staff
1441 Main Street
Suite 300
Columbia, South Carolina 29201
(5 copies)

And that a copy of the attached *Direct Testimony and Exhibits of Robert L. Thornton on Behalf of Piedmont Natural Gas Company, Inc.* is being served this date via U.S. Mail upon:

Jane Lewis-Raymond
Vice President & General Counsel
Piedmont Natural Gas Company, Inc.
P.O. Box 33068
Charlotte, North Carolina 28233

David Carpenter
Managing Director Regulatory Affairs
Piedmont Natural Gas Company, Inc.
P.O. Box 33068
Charlotte, North Carolina 28233

RECEIVEL

2007 OCT 12 M 10: 04

SC PUBLIC SERVICE

This the 11th day of October, 2007.

James H. Jeffrie